



Should You Follow Billionaires Into Railroad Stocks?

Description

When you think of billionaire investments, tech stocks are probably the first thing that comes to mind. Many hundred-billion-dollar fortunes owe their existence to big tech, and the number is growing all the time. Most centi-billionaires built their fortunes by starting their own tech companies and holding the shares. Hedge fund managers make up the lion's share of non-tech billionaires, with figures like Ray Dalio and George Soros rounding out the lower tier of the top 100 largest fortunes.

What you might not know is just how many of these tech and finance billionaires are invested in a much older sector: *railroads*.

Hardly a fashionable or trendy industry, railroads, nevertheless, count many [high-profile billionaires](#) among their owners, including the following:

- Bill Gates
- Melinda Gates
- Warren Buffett
- Bill Ackman

Thanks to massive consolidation in the industry, railroads have become a top-performing sector in terms of returns on equity. Every year, the world's biggest railroads crank out sizeable profits for every dollar of investor wealth. **Canadian National Railway** ([TSX:CNR](#))([NYSE:CNI](#)), for example, has a 50% gross profit margin and a 20% ROE for the trailing 12-month period. These kinds of financial results tend to drive high stock price appreciation in the long run. So, it's no surprise that railroads like CNR have been rallying over the past several years. Since this time in 2016, CNR has risen 96%, more than doubling the TSX's return in the same period (45%).

Why billionaires like railroad stocks

As we've seen already, many high-profile investors are invested in railroad stocks. Bill Gates and Warren Buffett both like them, and [Bill Ackman was on the train](#) (pardon the pun) for a time as well.

The question is, *why*?

When you look at railroads, you don't think of fast-paced growth. Seen as an industry that was trendy at the turn of the *previous* century, rail is hardly a big innovator now.

Yet it's still as relevant as ever. Rail remains the most cost-effective way to transport most goods over long distances. It beats air and trucks on price. It doesn't compete with ships, which are used for different types of routes. It does lose to pipelines for transporting crude oil, but with North America's pipelines being filled to capacity and being cancelled left and right, the crude-by-rail industry looks safe for now.

Because of its massive price advantage, rail transportation has actually seen appreciable growth over the past decade. Over 10 years, CNR has cranked out 12.44% annualized growth in levered free cash flow. Maybe that's not the kind of growth that top tech stocks produce, but it's pretty solid. If a stock's price grew at that rate, you'd double your money in fewer than seven years — a good long-term result.

Foolish takeaway

If billionaires' love affair with railroads can teach us anything, it's this: good investments are often in the last places you'd look.

Few would think that a centuries-old industry associated with the early 20th century gilded age would still be relevant now, but the truth is that it is. I'm personally long CNR stock, and I'll be holding it for the foreseeable future.

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